

**Tennessee Arts Commission**

**For the Years Ended  
June 30, 1999, and June 30, 1998**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
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**John G. Morgan**  
Comptroller

October 3, 2000

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Mr. Rich Boyd, Executive Director  
Tennessee Arts Commission  
401 Charlotte Avenue  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Arts Commission for the years ended June 30, 1999, and June 30, 1998.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Tennessee Arts Commission's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Tennessee Arts Commission is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Tennessee Arts Commission's management in a separate letter.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/kl  
00/071

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Tennessee Arts Commission**  
For the Years Ended June 30, 1999, and June 30, 1998

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## AUDIT SCOPE

We have audited the Tennessee Arts Commission for the period July 1, 1997, through June 30, 1999. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, inventory, revenue, expenditures, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

## AUDIT FINDINGS

### **Controls Were Violated with an Improper Payment for Artifacts**

The Tennessee State Museum did not follow proper control procedures when the Tennessee State Museum Foundation was reimbursed for items the Foundation did not purchase (page 8).

### **Federal Funds Not Drawn Down Timely \*\***

The commission did not draw down federal funds timely as required by the Department of Finance and Administration's Policy 20. The commission draws down federal funds monthly, not weekly, as the policy requires (page 11).

\*\* This finding is repeated from prior audits.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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**Audit Report**  
**Tennessee Arts Commission**  
**For the Years Ended June 30, 1999, and June 30, 1998**

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# **Tennessee Arts Commission**

## **For the Years Ended June 30, 1999, and June 30, 1998**

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### **INTRODUCTION**

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#### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Tennessee Arts Commission. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

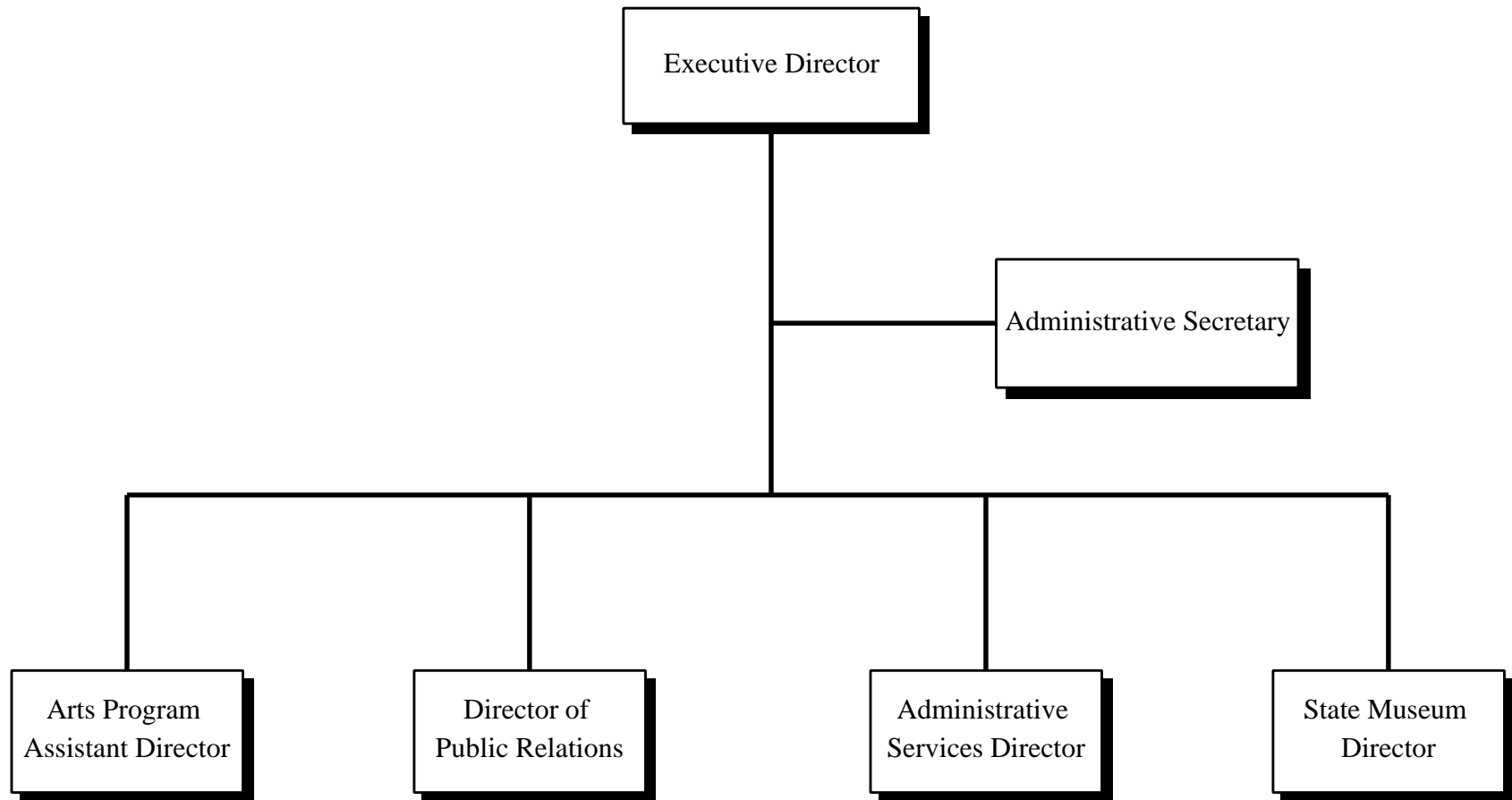
#### **BACKGROUND**

The Tennessee Arts Commission’s mission is to stimulate and encourage, throughout the state, the study and presentation of performing, visual, and literary arts and public interest and participation therein; to encourage participation in, appreciation of, and education in the arts to meet the legitimate needs and aspirations of persons in all parts of the state; to take such steps as may be necessary and appropriate to encourage public interest in the cultural heritage of the state, to expand the state’s cultural resources, and to promote the use of art in the state government’s activities and facilities; and to encourage excellence and assist freedom of artistic expression essential for the well being of the arts. In addition to its responsibility for and to the arts and artists in Tennessee, the Arts Commission has supervision and administrative responsibility for the Tennessee State Museum.

The commission’s 15 members are appointed by the governor and are to be broadly representative of all fields of the arts. At least one member, but not more than two, is appointed from each United States congressional district in Tennessee. Terms of appointment are five years. Members of the commission who complete a five-year term cannot be reappointed until a full year has passed. The commission is assisted in its efforts by an advisory panel composed of interested citizens and artists. An executive director is employed as administrative officer of the commission who in turn employs all other staff members needed for operations.

An organization chart of the department is on the following page.

**TENNESSEE ARTS COMMISSION  
ORGANIZATION CHART**





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## **AUDIT SCOPE**

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We have audited the Tennessee Arts Commission for the period July 1, 1997, through June 30, 1999. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, inventory, revenue, expenditures, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

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## **PRIOR AUDIT FINDINGS**

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. A follow-up of all prior audit findings was conducted as part of the current audit.

## **RESOLVED AUDIT FINDINGS**

The current audit disclosed that the Tennessee Arts Commission has corrected previous audit findings concerning inadequate controls over equipment, equipment not added to POST at the National Civil Rights Museum in Memphis, inadequate controls over inventory of artifacts, inadequate controls over donation box collections, and inadequate policies and procedures for subrecipient monitoring.

## **REPEATED AUDIT FINDING**

The prior audit report also contained a finding concerning late drawdowns of federal funds. This finding has not been resolved and is repeated in the applicable section of this report.

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## OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

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### EQUIPMENT

The objectives of our review of the commission's equipment controls and procedures were to determine whether

- property and equipment in the general fixed asset account group represented a complete and valid listing of the cost of assets purchased or leased and physically on hand;
- the cost, and if applicable, the related depreciation, associated with all sold, abandoned, damaged, or obsolete fixed assets was removed from the account group;
- property and equipment were adequately safeguarded;
- capital expenditures represented a complete and valid listing of the property and equipment acquired during the audit period;
- equipment purchases charged to federal grants, if applicable, were in compliance with grant requirements; and
- management corrected the finding concerning inadequate controls over equipment and the finding concerning equipment items not added to POST.

We interviewed key personnel to gain an understanding of the procedures and controls over equipment at both the Tennessee Arts Commission and the Tennessee State Museum. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on nonstatistical samples of equipment items in order to determine if equipment items included in the general fixed asset accounting group.

Based on our interviews, review of supporting documentation, and testwork, it appears that the commission instituted appropriate internal controls; the property and equipment listing accurately represented the property and equipment on hand; the commission properly safeguarded its property and equipment; and, capital expenditures represented an accurate and complete listing of property and equipment purchased during the audit period.

We had no findings related to property and equipment; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

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## **INVENTORY**

The objectives of the review of the Tennessee Arts Commission's inventory controls and procedures were to determine whether

- the Tennessee State Museum's inventory, whose value is included in the state's general fixed asset group, represented a complete and valid listing of inventory on hand;
- inventory items were valued at cost at date of purchase or if donated at market value at time of donation;
- inventory items were properly appraised for insurance evaluation;
- inventory items were adequately safeguarded;
- policies and procedures concerning the recording and valuation of items were adequate;
- purchases charged to federal grants were in compliance with grant requirements; and
- management corrected the prior finding concerning controls over the artifact inventory.

We interviewed key personnel to gain an understanding of the commission's procedures and controls over artifacts. We also reviewed supporting documentation for these procedures and controls. In addition, nonstatistical samples were tested to achieve our objectives.

We determined that controls over artifacts were strengthened from the prior audit. Artifacts were correctly valued at time of purchase and were properly appraised for insurance evaluation. Safeguards and security in the artifact storage area have been strengthened, and storage facilities have been upgraded to better protect the artifacts not on public display in the museum.

We had no findings related to inventory of museum artifacts; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

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## **REVENUE**

The objectives of the review of the commission's revenue controls and procedures were to determine whether

- revenue transactions were properly recorded and supported;
- cash collected during the audit period was deposited timely and accounted for in the appropriate fiscal year;
- physical controls over cash were adequate;
- revenue or fees were billed or charged and recorded at the correct amount;
- petty cash or change funds were authorized by the Department of Finance and Administration;
- commission records were reconciled with Department of Finance and Administration reports;
- procedures concerning donation box collections were adequate and were followed; and
- donation box collections were properly accounted for and deposited timely.

We interviewed key personnel to gain an understanding of the commission's procedures and controls over revenue. We also reviewed supporting documentation for these procedures and controls. A nonstatistical random sample of revenue items was tested to ensure items were recorded properly and deposits made timely. In addition, a sample of donation box collections taken from the Incoming Funds Log was tested to ensure policies and procedures had been followed and donations had been deposited timely.

We determined that the internal controls over the donation box collections were inadequate during the 1998 fiscal year. At the beginning of the 1999 fiscal year, the commission strengthened the control structure for donation box deposits in accordance with the response to the prior audit's finding. These new controls appear to be adequate and operating properly. Other minor weaknesses came to our attention and were reported to management in a separate letter.

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## **EXPENDITURES**

The objectives of the review of the commission's expenditure controls were to determine whether

- recorded expenditures were for goods or services that were authorized and received;
- expenditures incurred for goods or services were identified and whether the correct account, budget category, period, and amount were recorded;

- expenditures for goods or services were authorized and were in accordance with the budget and other regulations or requirements;
- payments were timely;
- commission and museum records were reconciled with Department of Finance and Administration reports;
- payments for travel complied with the Comprehensive Travel Regulations;
- contracts were in accordance with regulations;
- contract payments complied with contract terms and purchasing guidelines and were properly approved and recorded;
- federal expenditures complied with grant requirements;
- funds encumbered were liquidated for the same purpose as the original encumbrance; and
- management corrected the prior finding concerning subrecipient monitoring.

We interviewed key personnel to gain an understanding of the commission's procedures and controls over expenditures and subrecipient monitoring. We also reviewed supporting documentation for these procedures and controls for both expenditures and subrecipient monitoring. In addition, testwork was performed on nonstatistical samples of expenditure transactions. Grant expenditure transactions were tested to determine whether federal expenditures complied with grant requirements. Travel expenditure transactions were tested to determine that payments for travel were in accordance with the Comprehensive Travel Regulations. Expenditure transactions were tested to determine whether the expenditures were in accordance with proper regulations.

We had no findings related to the expenditure samples for goods and services purchased, contracts tested, grant funds expended, or travel taken. We had no findings related to the subrecipient monitoring. The commission had upgraded its procedures for subrecipient monitoring and was systematically examining records from the grant recipients. However, we discovered that an improper payment was made to the Tennessee State Museum Foundation. This is discussed in finding 1. In addition to the finding, other minor weaknesses related to expenditures and subrecipient monitoring came to our attention and were reported to management in a separate later.

**1. An improper payment to the Tennessee State Museum Foundation violated the Tennessee State Museum controls**

**Finding**

The Tennessee State Museum improperly paid the Tennessee State Museum Foundation for a group of items that had been previously paid for by the Museum.

In March of 1997, the Museum's curators obtained a shipment of Civil War era photographs and other personal items from a vendor. These items came with an invoice that requested a \$2,000 down payment and a final payment of \$3,500 on July 1, 1997. The Museum's curatorial staff examined the artifacts and discovered that the items were not what the vendor had originally represented. On June 6, 1997, the Director of Collections issued a counter-offer of \$1,500 for certain items identified as historically significant. An additional \$1,500 was offered for the remainder of the artifacts, which were of limited historical importance.

The vendor agreed to the \$1,500 payment for the historically significant items and the Museum returned the remainder of the artifacts. The Museum issued a warrant to the vendor on September 3, 1997, for \$1,500.

On August 26, 1997, the foundation billed the Museum \$2,000, as reimbursement of the down payment for the items. The Foundation generated this invoice despite the fact that the Foundation's check register did not reveal any payments to the vendor for the amount requested from the Museum. The Museum's Director of Collections did not approve this invoice for payment as required by policies and procedures; however, on September 3, 1997, the Museum paid \$2,000 to the Foundation. The Account Technician for the Museum initiated the payment process, and then the Museum fiscal staff approved the payment by signing the voucher register. This payment should not have been processed without the Museum's Director of Collections' approval.

The Museum made no request for the repayment nor has the Foundation returned the \$2,000. The Museum staff was unaware of the improper payment until the auditors examined the vendor files.

Because of this incident, auditors examined all supporting documentation and transactions involving the Museum's reimbursement to the Foundation for artifacts during the audit period. The auditors did not note any other unsupported payments to the Foundation. However, the invoices did not contain approval signatures from the director of collections in eight of the 14 transactions (57.1%) between the Foundation and the Museum.

### **Recommendation**

The Museum's fiscal staff should follow existing purchasing procedures and ensure that payments to the Foundation and to other vendors are not made unless an authorized signature from the collections staff indicates that the item has been received and the payment amount is approved by the Director of Collections or his designee. Furthermore, the Tennessee State Museum should immediately request reimbursement from the Tennessee State Museum Foundation for the \$2,000.

### **Management's Comment**

We concur that the incident occurred. The Tennessee State Museum has invoiced the Tennessee State Museum Foundation (TSMF) for the reimbursement in the amount of \$2,000. The Director of Public Programs, as part of the management team to supervise the activities of the TSMF, signs off on all invoices from the museum to the foundation. The Director of Collections signs only requests for payment for artifact purchases to be reimbursed by the State. Auditors of the TSMF have been informed of this improper payment.

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### **FINANCIAL INTEGRITY ACT**

The Financial Integrity Act of 1983 requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999, and each year thereafter. In addition, the head of each executive agency is also required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

The objectives of our review of the Tennessee Arts Commission's compliance with the Financial Integrity Act were to determine whether

- the department's June 30, 1999, responsibility letter and December 31, 1999, internal accounting and administrative control report were filed in compliance with the Financial Integrity Act of 1983;
- documentation to support the department's evaluation of its internal accounting and administrative control was properly maintained;
- procedures used in compiling information for the internal accounting and administrative control report were adequate; and
- corrective actions have been implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the report to gain an understanding of the department's procedures. We also reviewed the supporting documentation for these procedures and the June 30, 1999, responsibility letter and December 31, 1999, internal accounting and administrative control report submitted to the Comptroller of the Treasury and to the Department of Finance and Administration.

We determined that the Financial Integrity Act responsibility letter and internal accounting and administrative control report were submitted on time, and support for the internal accounting and administrative control report was adequate.

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**DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20,  
“RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES”**

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the Schedules of Federal Financial Assistance and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. The STARS 832 Report and the Schedule of Expenditures of Federal Awards were reviewed. We determined that federal funds were not drawn down in accordance with Department of Finance and Administration's Policy 20, as discussed in finding 2.



**2. For the eighth year, the commission did not draw down federal funds timely as required by the Department of Finance and Administration's Policy 20**

**Finding**

As stated in the three prior audits, the Tennessee Arts Commission did not comply with the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues." Policy 20 was issued in response to the Cash Management Improvement Act of 1990 and was developed to provide uniform procedures to ensure that various state institutions are accountable for state and federal funding received. Management concurred with the prior three audit findings and stated that the commission had worked with the Office of Cash Management and the Department of Finance and Administration to develop a drawdown policy and schedule for the commission that will comply with Policy Statement 20. However, the commission's response to the prior audit's finding stated that a schedule could not be created to bring the commission into compliance with Policy Statement 20.

Policy 20, Component 01, Section 02, 20-01-204, states, "Federal drawdowns must be made utilizing the STARS grant module (available on STARS report Number 832) unless the grant language specifies use of check clearance patterns. Unless disallowed by Federal law or grant agreement, all drawdowns must be performed at least weekly."

Although the commission utilized the STARS grant module to make federal drawdowns, the drawdowns continued to be made quarterly for the period from July 1, 1997, to September 30, 1998, and then monthly from October 1, 1998, to June 30, 1999. No exception request had been made to or approved by the chief of the Division of Accounts, Department of Finance and Administration, to exempt the commission from weekly drawdowns.

The commission stated in their response to the finding that a forthcoming revision of Policy Statement 20 would allow for monthly, rather than weekly, drawdowns of federal dollars. However, compliance with the revised policy, effective July 1, 2000, will still require the commission to change its current drawdown practices.

**Recommendation**

The executive director should determine why no action has been taken to ensure drawdowns comply with the Department of Finance and Administration's Policy 20, or request exemption from the policy.

**Management's Comment**

We concur. To correct this finding the agency has worked to train more than one employee to prepare drawdowns. Two positions were upgraded in the Administrative Services

Division and job duties reassigned to include this responsibility. Since July 1, 2000, we will request an exemption from this policy.

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## **OBSERVATIONS AND COMMENTS**

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### **TITLE VI OF THE CIVIL RIGHTS ACT OF 1964**

*Tennessee Code Annotated*, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Tennessee Arts Commission filed its compliance reports and implementation plans on June 30, 1998, and June 30, 1999.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

### **TITLE IX OF THE EDUCATION AMENDMENTS OF 1972**

*Tennessee Code Annotated*, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The Tennessee Arts Commission did not file its compliance report and implementation plan by June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the Tennessee Arts Commission is not in compliance with federal law.

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## **APPENDIX**

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Tennessee Arts Commission divisions and allotment codes:

316.25	Tennessee Arts Commission
316.27	Tennessee State Museum